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Metro Council

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Office of Internal Audit

Louisville Metro
Police Department

Narcotics / Vice Unit
Forfeiture and
Investigative Funds

Audit Report

Office of Internal Audit

Louisville Metro Police Department

Narcotics / Vice Unit Forfeiture and Investigative Funds

July 2006



**Louisville Metro
Police Department**

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Forfeiture and
Investigative Funds**

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Transmittal Letter

July 18, 2006

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Re: Review of Louisville Metro Police Department Narcotics / Vice Unit Funds

Introduction

A review of Louisville Metro Police Department (LMPD) narcotic / vice unit's funds was performed. Specifically, the administration of narcotic forfeiture and investigative funds was examined. The primary focus of the review was compliance with applicable guidelines to include internal policies and procedures. This includes how the unit processes, records, monitors, and reports the narcotic fund activity.

The examination was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

Scope

The Louisville Metro Police Department narcotics / vice unit funds were reviewed. Interviews of key personnel were conducted. The focus of the review was the administration of funds associated with the unit's activity. The following types of activities were reviewed.

- Federal and State Forfeiture Funds.
- Investigative Funds / Petty Cash.

A sample of forfeiture and investigative funds was reviewed. The sample was chosen from the period July 1, 2005 through February 28, 2006. The examinations included the reconciliation of individual investigative funds, along with the Metro petty cash funds, by verifying cash on hand and receipts; and verifying Metro Narcotic's compliance with procedures for managing narcotic forfeiture funds. The detailed use of investigative and forfeited funds was not assessed.

The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report. The examination would not reveal all non-compliance issues because it was based on selective review of data.

Opinion

It is our opinion that LMPD narcotics / vice unit's compliance with internal policies and procedures and the administration of investigative funds is satisfactory. The internal control rating is on page 5 of this report. This rating quantifies our opinion regarding the internal controls. The detailed use of investigative and forfeited funds was not assessed; therefore no opinion is expressed as to the appropriateness of disbursements.

Opportunities to strengthen the compliance of LMPD narcotic fund activity were noted. Examples of these include the following.

- **Federal and State Forfeiture Funds.** Monitoring procedures could be improved to ensure complete reconciliation of narcotics forfeiture funds. The reconciliation should be inclusive to ensure the completeness and accuracy of all files, databases and Metro financial system records. For example, the narcotics / vice unit does not monitor forfeitures posted to the narcotics funds by other divisions of LMPD.

Also, local guidelines may need to be revised. The Louisville Metro Ordinance for forfeited property refers to a Kentucky Revised Statute that appears to have been repealed.

- **Investigative Funds / Petty Cash.** The administration of LMPD narcotics / vice unit investigative funds could be managed in a more efficient manner. A consolidated petty cash fund assigned to a single individual would help ensure funds are accounted for properly.

During the review of investigative funds, it was noted that two petty cash funds were functionally managed by a single custodian. This individual was not recorded as the official custodian with the Metro Finance Department for one of the petty cash accounts. This does not provide for the proper accountability of funds.

The implementation of the recommendations in this report will help improve the internal control structure for the LMPD narcotic fund activity and compliance with internal policies and procedures.

Corrective Action Plan

Representatives from the Louisville Metro Police Department (LMPD) have reviewed the results and are committed to addressing the issues noted. LMPD's corrective action plans are included in this report in the Observations and Recommendations section. We will continue to work with the LMPD to ensure the actions taken are effective to address the issues noted.

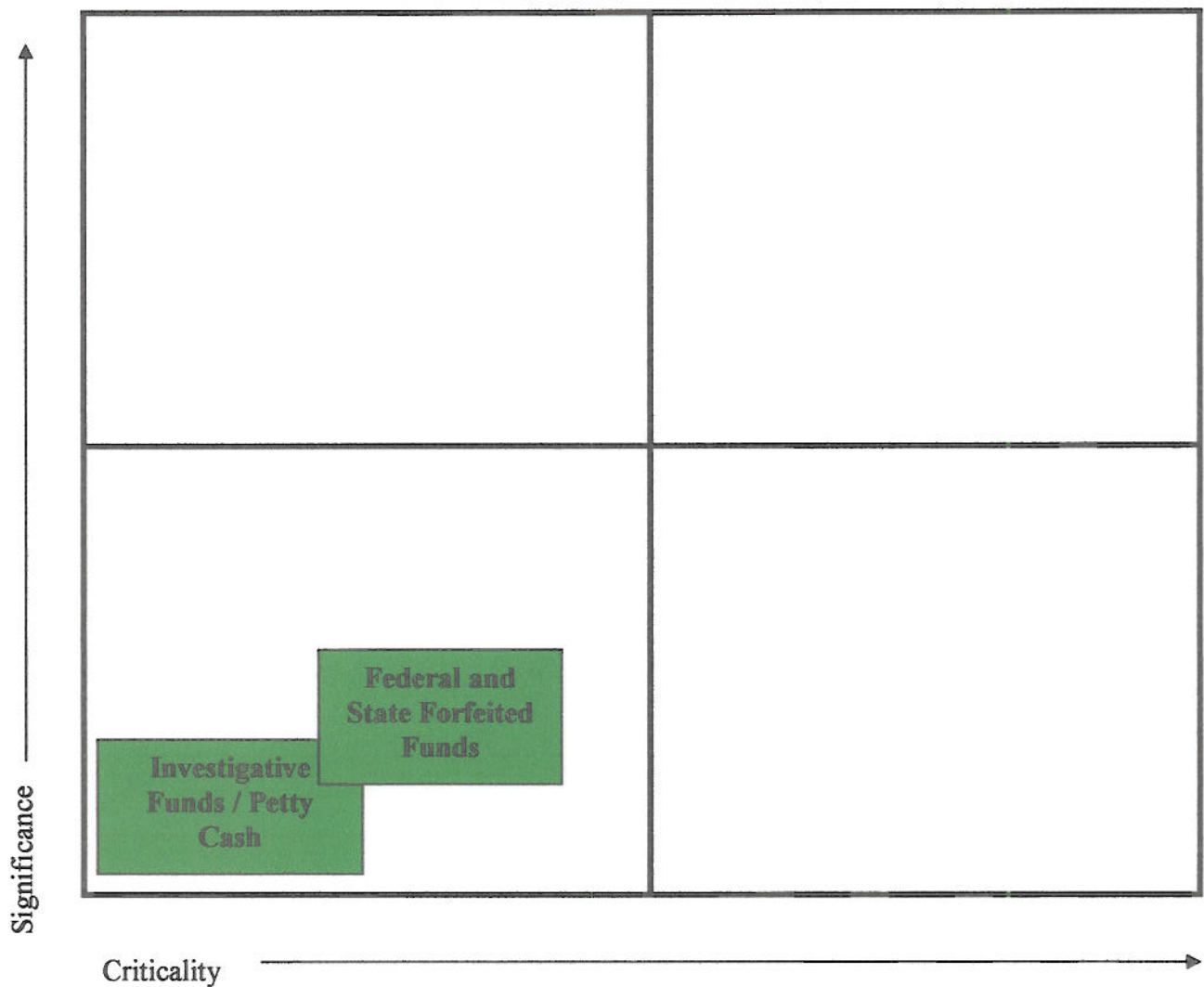
Sincerely,



Michael S. Norman, CIA
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
Louisville Metro Council Members
Deputy Mayors
Louisville Metro Police Chief

Internal Control Rating



<u>Legend</u>			
<u>Criteria</u> <u>Issues</u>	<u>Satisfactory</u> Not likely to impact operations.	<u>Weak</u> Impact on operations likely contained.	<u>Inadequate</u> Impact on operations likely widespread or compounding.
<u>Controls</u>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<u>Policy Compliance</u>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<u>Image</u>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<u>Corrective Action</u>	May be necessary.	Prompt.	Immediate.

Background

The Louisville Metro Police Department (LMPD) narcotics / vice unit receives forfeited funds in accordance with Federal, State and local guidelines. Detailed processing requirements for Federal and State narcotics cases are included in the Metro Narcotics Asset Forfeiture Unit Procedures. Items seized during investigations and arrests are held in the custody of the LMPD property room until court cases are determined. The LMPD narcotics / vice unit receives forfeitures in accordance with the legal determinations. Funds are deposited and recorded in the applicable forfeiture accounts on the Metro financial system.

The LMPD narcotics / vice unit administers investigative funds. Individual supervisors serve as the custodian of funds and provide officers with amounts to make payments for investigative purposes (e.g. confidential informants, flash money). As of March 2006, Metro Finance recorded two petty cash accounts authorized for the narcotics / vice unit. This included \$50,000 for narcotics and \$6,750 for vice.

This was a scheduled audit.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit previously audited the LMPD narcotics unit asset forfeiture management and issued the results in July 2003. Unless otherwise noted, all prior problems have been satisfactorily addressed.

III. Statement of Auditing Standards

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

A formal study of the internal control structure was conducted to obtain a sufficient understanding in order to support the final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

The examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials / Action Plan

A draft audit report was issued to the Louisville Metro Police Department (LMPD) on June 15, 2006. An exit conference was held at the LMPD administrative office on July 13, 2006. Attending were Lt. Col. Vince Robison, Major Tim Emington, Captain Don Burbrink, Sergeant Stan Salyards, Amy McTyeire and Xiang Stover representing LMPD; Mike Norman, Ingram Quick and Mark Doran representing Internal Audit. Final audit results were discussed.

The views of LMPD officials were received on July 18, 2006 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

Observations and Recommendations

Federal and State Forfeiture Funds

Scope

The Louisville Metro Police Department (LMPD) narcotics / vice unit's compliance with the general procedures for managing Federal and State narcotic forfeiture funds were reviewed through interviews with key personnel. The purpose of the review was compliance with the unit's internal policies and procedures for managing forfeited revenues. This includes the processing, recording, and monitoring of activity. The use of funds was not assessed; therefore no opinion is expressed as to the appropriateness of disbursements.

A sample of Federal and State narcotics forfeiture revenues was selected from the population of activity recorded on the LMPD narcotics / vice unit forfeiture database reports for the period July 1, 2005 through February 28, 2006.

The review consisted of examining the sample of narcotics forfeiture files and the supporting documentation including 1) request for forfeiture form, 2) order of forfeiture form, 3) application for transfer of federally forfeited property form, 4) asset forfeiture databases and 5) Metro financial system postings.

This information was reviewed to ensure that activity was processed in accordance with applicable Metro narcotics / vice unit policies and procedures. The examination would not reveal all non-compliance issues because it was based on a selective review of data. The following issues were noted.

Observations

Some minor issues were noted with LMPD narcotics / vice unit's administration and compliance with the general procedures for managing Federal and State narcotic forfeiture funds. However, the overall internal control structure is satisfactory. The following were noted during the review.

- Two issues were noted regarding minor problems with the monitoring and reconciliation of forfeited funds.
 - In one case, the LMPD narcotics / vice unit's database used to record seizures had not been updated to reflect that the funds had been forfeited.
 - The narcotics / vice unit does not monitor forfeitures posted to the narcotics funds by other divisions of LMPD. A database is maintained for narcotics unit forfeitures and the detailed transactions are reconciled to the Metro financial system. Other LMPD divisions use the same financial accounts to

deposit funds when narcotics forfeitures are received. In these cases, none of the documentation is provided to the narcotics unit and the activity is not recorded on their forfeiture databases. This does not properly ensure the completeness and accuracy of funds recorded on the financial statements associated with narcotics forfeitures.

- An administrative issue was noted during the review of narcotics forfeitures. The Louisville Metro Ordinance for forfeited property section 130.02(C)(4) requires that certain forfeited moneys be deposited into a narcotics investigative account. The ordinance references Kentucky Revised Statute 218A.270 that appears to have been repealed.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ Routine supervisory review should be performed to assess the completeness of the Federal and State narcotics forfeiture activity files and computer records.
- ✓ A formal, documented reconciliation process should be implemented. The detailed monthly financial reports should be compared to some type of source documentation (e.g., forfeiture files, database computer reports). This helps to ensure the transactions were processed as intended and posted accurately to the proper financial accounts. This also strengthens the reliability of the financial statements.
- ✓ Monitoring procedures should ensure that complete reconciliation of narcotics forfeiture funds are performed. The reconciliation should be inclusive to ensure the completeness and accuracy of all files, databases and Metro financial system records. This would require that the LMPD division staff responsible for activity be provided with complete information.
- ✓ Police command should consider administering all narcotics forfeiture funds through the narcotics / vice unit. This would provide a central depository for this type of activity. A single LMPD unit managing all narcotics forfeitures would likely improve the efficiency of required reporting. Another alternative would be to assign separate financial accounts for various narcotics forfeiture funds so that activity from each division could be properly monitored.
- ✓ LMPD should ensure that ordinance references are accurate and contact legal counsel to address issues as needed.

LMPD Corrective Action Plan

Louisville Metro Police Department officials have reviewed the audit report and considered all of the recommendations.

- LMPD personnel reconcile forfeitures to the monthly financial reports in the Business Office which is the central depository for this type of activity.
- LMPD personnel will review the ordinance discrepancy with the legal advisor and will make recommendations if correction is merited.

Investigative Funds / Petty Cash

Scope

The Louisville Metro Police Department (LMPD) narcotics / vice unit general procedures for managing petty cash funds used for investigative purposes were reviewed through interviews with key personnel. As of March 2006, Metro Finance recorded two petty cash accounts authorized for the narcotics / vice unit (\$50,000 for narcotics and \$6,750 for vice). Each of the accounts were assigned to separate LMPD supervisors who serve as petty cash custodians.

An internal process is administered by LMPD in which the petty cash custodians distribute funds to responsible officers for investigative purposes. Internal Audit reconciled the individual investigative funds, along with the Metro petty cash funds, by verifying cash on hand and receipts as follows.

I. For the investigative funds assigned to officers within the narcotics / vice unit, a cash count was performed and receipts documenting disbursements were obtained. The cash on hand and total receipts were compared to the authorized account amount to determine if all funds were accounted for.

II. For the Metro petty cash funds assigned to petty cash custodians within the narcotics / vice unit, a cash count was performed. The sum of the petty cash fund receipts documenting disbursements, along with the balance of the related investigative accounts established using the petty cash account, were obtained. The sum of the cash on hand, total receipts and investigative funds were compared to the authorized petty cash fund amount to determine if all funds were accounted for.

These reconciliations were performed in the presence of the responsible cash fund custodian on April 20, 2006. The purpose of the review was to verify that all petty cash and investigative funds were accounted for. The detailed use of funds was not assessed; therefore no opinion is expressed as to the appropriateness of disbursements. The following issue was noted.

Observations

One minor issue was noted with the LMPD narcotics / vice unit's administration of cash funds. However, the overall internal control structure is satisfactory. The following was noted during the review.

- Both petty cash accounts and all eight investigative accounts agreed with the authorized amounts, but an individual who was not recorded as the official custodian on the Metro Finance Department records administered one petty cash account. The responsibility for the fund had been transferred and a single individual is physically

managing both accounts assigned to the LMPD narcotics / vice unit. This does not properly document the custodian who is actually responsible for the funds.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ The individual who actually administers the cash account should be the petty cash custodian on record in Metro Finance.
- ✓ LMPD command should consider using one petty cash fund for the combined narcotics / vice unit. This would involve assessing the amount to best meet the objectives of the investigative activities the funds are used for.

LMPD Corrective Action Plan

Louisville Metro Police Department officials have reviewed the audit report and considered all of the recommendations.

- LMPD personnel verified with Metro Finance that all custodians of record are correct.
- Because of the different functions of the Vice Squad and the Narcotics Squad, separate investigative funds are necessary.